



December 7, 2020

Toni Lee-Andrews, Director
Professional Ethics Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft: Proposed interpretation: Staff Augmentation Arrangements

VIA Email: Ethics-ExposureDraft@aicpa.org

Dear Ms. Lee-Andrews:

Eide Bailly LLP is pleased to respond to the Professional Ethics Executive Committee's (PEEC) Exposure Draft (ED) document, *Proposed interpretation: Staff Augmentation Arrangements* and is respectfully providing feedback on the ED. We appreciate the PEEC's interest in updating and enhancing independence guidance.

The ED specifically asks for responses to the following questions:

24a. Should staff augmentation arrangements with attest clients be permitted under any circumstances? Why or why not?

Response: Yes, we agree that staff augmentation arrangements should be allowed where appropriate safeguards can be applied. We were unclear how staff augmentation arrangements differed from other nonattest service that could be paired with appropriate safeguards; accordingly, we recommend that the Committee clarify the intended difference between these services and other nonattest services. See also our response in 24f for expanded observations comparing staff augmentation to other allowed nonattest services.

24b. If you believe staff augmentation arrangements should be permitted, do you agree with the proposed interpretation, including the proposed safeguards, that would allow such arrangements in very limited situations? Why or why not?

Response: See our response included in 24f.

24c. Do you believe that 30 days is an appropriate time period for the attest client to make other arrangements (see paragraph .02c of the interpretation)? If not, why?

Response: We have concerns that the 30-day limit may not allow for sufficient time to serve a client during an unexpected hardship, particularly when time may be needed for training to learn a client's processes. We believe that a 60-90 day period would be more reasonable.

24d. Should an exception for staff augmentation arrangements with certain affiliates of a financial statement attest client, as described in paragraphs 14–19 of this explanation, be permitted? (i) Why or why not? (ii) If it should be permitted, should the proposed additions discussed in paragraphs 18–19 of this explanation be added as drafted or do you have suggested revisions?

Response: We believe that the guidance provided in paragraphs 14-19 appears reasonable and consistent with other nonattest service considerations regarding affiliates. We also agree that paragraphs 18-19 provide an appropriate basis for AUP considerations in determining whether a service would impair independence regarding the related subject matter.

24e. Do you believe there should be an exemption for staff augmentation arrangements for all SSAE engagements when the services provided by the augmented staff do not relate to the specific subject matter of the SSAE engagement, or should the exemption be limited to only AUPs under the SSAEs? Why or why not?

Response: We do not believe it is appropriate for prohibited nonattest services to be provided for SSAE engagements outside AUPs. In the proposed guidance for 1.297.020 paragraph .04, it's clear that the nature of the service should not impact the subject matter of an AUP, which aligns with paragraph .03 of that section that already provides similar allowances for AUPs. We believe that because SSAEs, such as examination and SOC engagements, provide an opinion on the subject matter, the level of assurance is akin to an audit, and accordingly, should require similar evaluation of threats and safeguards for nonattest services as outlined in 1.275.007.

24f. Are there specific aspects of the proposal that you believe are too permissive or too restrictive? If so, please explain.

Response: We have concerns that the definition of staff augmentation is too broad and could potentially be considered to include nonattest services already permitted if accompanied by appropriate safeguards. For example, section 1.295.120 of the codification allows for bookkeeping, payroll, and other disbursement services if appropriate safeguards are in place. Often these services are structured in a way that require little oversight by the firm and could be interpreted as the attest client directing or supervising the staff as management fulfills their responsibility to authorize and approve the activities. Many consulting services are structured in similar fashion in which the nature of the service does not require the firm to provide significant oversight of the staff and could be construed as the attest client directing the firm's staff. The proposed language for 1.275.007, paragraph .02(e) makes specific reference to "Nonattest Services" subtopic [1.295] as the basis for the types of activities that would be allowable in augmented arrangements. We believe there should be further clarification distinguishing an augmentation arrangement from other allowable nonattest services when minimal oversight of the firm is necessary to direct or supervise such services.

24g. Does a six-month delayed effective date allow firms enough time to implement the necessary policies and procedures and terminate any relationships that would no longer be permitted? Why or why not?

Response: The six-month delay depends on how the guidance is clarified based on our observations to questions 24a, 24b, and 24f. If the guidance is clarified that staff augmentation is an additional example of a nonattest service allowed under the guidance, then a six-month lead time would be appropriate. However, if this guidance potentially scopes in current nonattest services that would now be considered staff augmentation arrangements, then firms would need significant lead time to identify such services and modify or terminate the arrangements.

In addition to answering the questions above, we had the following additional observations and comments.

In the ED, 1.275.007 paragraph .02(a) discusses that the arrangement is being performed “due to an unexpected situation” and that a “significant hardship” would be on the attest client to make other arrangements. We recommend that definitions, application guidance and/or illustrations be provided to elaborate on what conditions would qualify as “unexpected situation” and “significant hardships.” Without definitions, application guidance and/or illustrations for these terms, there could be significant diversity in practice in determining what circumstances would constitute an allowance of staff augmentation arrangements.

We also have concerns regarding the guidance in 1.275.007 paragraph .02(b) that an augmentation arrangement should not be expected to recur. If the guidance allows for an augmentation arrangement, the client may look to the firm to fulfill similar services from time to time as needed. We recommend providing examples to illustrate how an engagement team might evaluate the expectation of recurrence.

We thank you for your consideration, and for your efforts on this proposal. You may reach me at 208.383.4753 for further clarification of our responses.

Sincerely,

A handwritten signature in black ink that reads "Scot Phillips". The signature is written in a cursive, slightly slanted style.

Scot Phillips, CPA
Partner in Charge of the National Assurance Office
Eide Bailly LLP

cc: Brian Bluhm, Chief Quality Officer